

## Message Text

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ACTION EB-07

INFO OCT-01 EA-06 ISO-00 NIC-01 SAJ-01 IO-10 SAM-01

CIAE-00 DODE-00 INR-07 NSAE-00 PA-01 RSC-01 USIA-06

PRS-01 SP-02 AGR-05 COME-00 LAB-04 STR-01 TRSE-00

CIEP-01 FRB-03 OMB-01 SIL-01 SS-15 NSC-05 L-02 H-01

NSCE-00 /084 W

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R 280840Z JAN 75

FM USLO PEKING

TO SECSTATE WASHDC 3148

INFO AMEMBASSY SEOUL

AMEMBASSY TOKYO

AMCONSUL HONG KONG

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E.O. 11652: N/A

TAGS: ETRD US CH

SUBJECT: PRC CANCELS US GRAIN CONTRACTS

SUMMARY: COOK INDUSTRIES HAS REPORTEDLY CANCELLED CONTRACTS UNDER WHICH IT WOULD HAVE SHIPPED 600,000 TONS OF US WHEAT TO CHINA LAST YEAR. REPRESENTATIVES OF BOTH COOK AND DREYFUS (WHICH HAS 360,000 TONS TO DELIVER TO CHINA THIS YEAR) WERE IN PEKING IN MID-JANUARY, ENROUTE TO PYONGYANG. WE BELIEVE THE COOK CANCELLATION WAS NEGOTIATED AT THAT TIME AND STRONGLY SUSPECT THAT THE DREYFUS CONTRACT WAS ALSO CANCELLED. THE CANCELLATION PROBABLY REFLECTS A PRC NEED TO CONSERVE FOREIGN EXCHANGE AS WELL AS THE IMPROVED GRAIN HARVEST LAST YEAR. END SUMMARY.

1. ACCORDING TO VOA, COOK INDUSTRIES HAS ANNOUNCED THE CANCELLATION OF CONTRACTS UNDER WHICH COOK WOULD

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HAVE SHIPPED 600,000 TONS OF US WHEAT TO CHINA IN 1975.

THIS IS THE FIRST WE HAD HEARD OF THE CANCELLATION, BUT WE HAD SUSPECTED SOMETHING MIGHT BE IN THE WIND.

2. BOTH JACQUES LANG, OF COOK'S FRENCH AFFILIATE UNION GRANIERE, AND DREYFUS REPRESENTATIVE MARCEL MARQUOT VISITED PEKING DURING THE WEEK OF JANUARY 14-21, AFTER WHICH BOTH MEN DEPARTED FOR NORTH KOREA. MARQUOT DID NOT STOP AT USLO, BUT LANG PAID A COURTESY CALL DURING WHICH HE INDICATED THAT THE MAIN PURPOSE OF HIS TRIP WAS TO DISCUSS POSSIBLE SALE OF FRENCH WHEAT TO THE DPRK. HE SAID THAT HE AND MARQUOT HAD BEEN INVITED TO PYONGYANG SIMULTANEOUSLY BECAUSE, HE THOUGHT, THE KOREANS WISHED TO BUY ON CREDIT AND HOPED THAT WITH TWO COMPANIES COMPETING FOR THE BUSINESS THEY MIGHT OBTAIN MORE FAVORABLE TERMS.

3. DURING HIS USLO CALL, LANG PROVIDED LESS DETAIL THAN USUAL ON THE SUBSTANCE OF HIS CONVERSATIONS IN PEKING AND DWELT INSTEAD ON THE INCREASED RISK OF TCK IN FUTURE US SHIPMENTS DUE TO CURRENT FALLING WORLD PRICES. WITH PRICES GOING DOWN, HE SAID, THE TEMPTATION ON THE PART OF DOMESTIC SUPPLIERS TO MIX GRADES OF WHEAT WOULD BE GREATER, AND THIS COULD ADVERSELY AFFECT THE EFFORTS OF THE INTERNATIONAL TRADING FIRMS TO OBTAIN ENTIRELY SMUT-FREE GRAIN. HE ADDED THAT WHEN THE CHINA NATIONAL CEREALS, OILS AND FOODSTUFFS IMPORT AND EXPORT CORPORATION (CEROILFOOD) AGREED TO ACCEPT TWO TCK-CONTAMINATED CARGOES FROM DREYFUS LAST NOVEMBER (PEKING 2207 OF 1974), CEROILFOOD ALSO PUT DREYFUS ON NOTICE THAT NO FURTHER TCK SHIPMENTS WOULD BE ACCEPTED UNDER THE BALANCE OF THE CONTRACT. THE CHINESE REASONING, LANG SAID, WAS THAT IN ACCEPTING THE TWO DREYFUS SHIPMENTS THEY HAD FULLY HONORED THEIR "GENTLEMEN'S AGREEMENT" TO ACCEPT TCK CARGOES ONLY ON AN "EXCEPTIONAL BASIS". FURTHER ACCEPTANCE OF SUCH CARGOES WOULD NOT BE "EXCEPTIONAL," THEY SAID.

4. LANG TOLD US THAT IN 1975, COOK HAD 600,000 TONS OF WHEAT TO DELIVER AND DREYFUS HAD 360,000 AND THAT SO FAR AS HE KNEW THERE WERE NO OTHER OUTSTANDING CONTRACTS FOR LIMITED OFFICIAL USE

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SHIPMENT OF US GRAIN TO CHINA THIS YEAR. WHEN TOLD THAT MINISTER OF FOREIGN TRADE LI CH'ANG RECENTLY INDICATED TO MR. BUSH THAT CHINA MIGHT NOT CONTINUE TO IMPORT GRAIN FROM THE US, LANG SAID HE HAD A SIMILAR IMPRESSION.

5. COMMENT: WE ASSUME THAT WHILE VISITING PEKING LANG WAS IN FACT NEGOTIATING THE CANCELLATION OF THE 600,000 TON BALANCE OF COOK'S CONTRACTS WITH CEROILFOOD WHICH

COOK INDUSTRIES HAS NOW PUBLICLY REPORTED. WITH GRAIN PRICES FALLING, COOK PROBABLY WANTED TO MAINTAIN SECRECY ON THE CANCELLATIONS UNTIL IT COULD MAKE PROPER MARKET MOVES TO COVER ITSELF AND LANG PROBABLY FELT HE COULD NOT RISK TELLING USLO THE TRUE NATURE OF HIS PEKING BUSINESS.

6. NOW THAT THE CANCELLATION HAS BEEN ANNOUNCED, WE MAY GET MORE INFORMATION WHEN LANG PASSES THROUGH PEKING ENROUTE HOME. FOR THE MOMENT, HOWEVER, OUR SPECULATION IS THAT DREYFUS ALSO CANCELLED ITS 360,000 TONS BALANCE WHILE MARQUOT WAS IN PEKING. OUR GUESS IS THAT IN ORDER TO CUT DOWN ON THEIR FOREIGN EXCHANGE OUTLAY FOR 1975, AND IN VIEW OF A REASONABLY ADEQUATE OVERALL GRAIN HARVEST LAST YEAR, THE CHINESE DECIDED TO SEEK A WAY OUT OF THEIR CONTRACTS WITH COOK AND DREYFUS. THE PROBLEM OF TCK IN US WHEAT MAY HAVE BEEN AN ADDED CONSIDERATION WITH THE CHINESE SIDE, BUT WE DO NOT THINK IT WAS A FUNDAMENTAL REASON FOR THE CANCELLATION. FOR THEIR PART, THE TWO US FIRMS MAY HAVE FELT THAT THE RISK OF LOSSES DUE TO TCK JUSTIFIED LETTING THE CHINESE OFF THE HOOK. WE WILL REPORT FURTHER DETAILS IF THEY BECOME AVAILABLE.

7. THE FOREGOING CONTAINS COMMERCIALY SENSITIVE INFORMATION AND SHOULD NOT BE DISCLOSED OUTSIDE THE USG.  
HOLDRIDGE

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